

PUBLIC EMPLOYEES RETIREMENT BOARD MEETING

May 15, 2006

8:30 A.M.

A regular meeting of the Public Employees Retirement Board convened at 8:30 a.m., Monday, May 15, 2006, in the TierOne Community Meeting Room at 1221 N Street, Lincoln, Nebraska.

The Board members were notified of this meeting by letter dated May 5, 2006. Public notice of this meeting was published in the Lincoln Journal Star and Omaha World Herald on Monday May 8, 2006. Mr. Peters chaired the meeting and Ms. Linder recorded the minutes.

MEMBERS PRESENT:

CHARLES PETERS, CHAIR
DENIS BLANK, VICE-CHAIR
ROGER REA
DALE KAHLA
MARK SHEPARD
GLENN ELWELL
JUDGE GLENN CAMERER
RICHARD WASSINGER
CAROL KONTOR, EX-OFFICIO

NONMEMBERS PRESENT:

ANNA SULLIVAN
Director
WILLIAM ROBINSON
The Hartford
JASON HAYES
Legislative Retirement Counsel
GARY BUSH
DAS - State Budget Administrator's Office
KRISTA DAVIS
State Auditor's Office
MARY JOCHIM
Sterling Financial Advisors
CHAD MELCHER
Union Bank & Trust
NEIL BATEMAN
Retired Teachers

JOE SCHAEFER
Legal Counsel
JAN FOX
Training Supervisor
JOHN WINKELMAN
Training Specialist
JANE HANSEN
Retirement Plan Supervisor
RANDY GERKE
Accounting and Finance Manager
TERESA ZULAUF
Internal Auditor
SHEILA LINDER
Administrative Assistant

Agenda Items 1 and 2 - Meeting Called to Order: Chairperson Peters called the May 15, 2006, Board Meeting to order at 8:35 a.m. Present at roll call: C. Peters, D. Blank, R. Rea, D. Kahla, G. Elwell, G. Camerer, and R. Wassinger. Absent: M. Shepard, and C. Kontor. Ms. Sullivan stated she received a call from Ms. Kontor informing her that she would be arriving late to the meeting.

Agenda Item 3 - Approval of Minutes: Mr. Rea moved that the minutes of the April 17, 2006, Board Meeting be approved. Motion was seconded by Mr. Blank. Members voted as follows: For: D. Blank, R. Rea, D. Kahla, G. Elwell, G. Camerer, R. Wassinger, and C. Peters. Against: None. Motion carried.

Agenda Item 4 - Approval of Budget Status Report & April Retirement Report: Mr. Rea moved to approve the budget status report and the April 2006 Retirement Report. Motion was seconded by Mr. Kahla. Members voted as follows: For: R. Rea, D. Kahla, G. Elwell, G. Camerer, R. Wassinger, C. Peters, and D. Blank. Against: None. Motion carried.

Agenda Item 5 - Information System Update: Mr. Gerke reported Covansys is working on the 7% maximum salary increase cap that is on schedule for the School plan. A memo was sent to the School payroll personnel letting them know that we will be sending a report to them listing the people we feel have a 7% or greater salary increase based on our information in PIONEER.

There was a workflow problem this month that Covansys is working on. Some of the workflow is not showing up and they are working on it because it is a high priority. The information is there but staff are not able to see it in the normal fashion.

Mr. Peters asked if there is backlog. Mr. Gerke stated staff is working on obtaining information and did some fact finding this month. There is a little backlog in some of the areas. Vesting credit may be some behind. The beneficiary workflow is down to 39 to be worked on. Staff did work some overtime in April to catch up on that area. The information is on PIONEER to work but some of the areas may not be able to get to it because they are busy. We are current on processing retirements. One individual was behind in marking deferred accounts and another staff member stepped in to help. The managers receive a report on the workflow for their area so it would be better to address with the individual managers. Accounting and IT does not use workflow. Benefits and Data Services use workflow. Ms. Sullivan stated we could get you a list of outstanding items by area if the Board would like. Mr. Peters asked to see tangible evidence of what is outstanding.

Mr. Shepard joined the meeting at 8:43 a.m.

Mr. Gerke reported the makeup dividend was paid out for 2003 and 2004 over this past weekend. The IT staff will do a mail merge and send out a notice informing these individuals of the dividend they received.

IT staff are working with Union Bank on an FTP site. They have almost all of the issues resolved on getting County data to Union Bank. All transactions will be run parallel for the entire month of June, meaning everything that goes to Ameritas will also go to Union Bank.

NITC is performing the analysis on the PIONEER system and the risks we will have if we do not migrate from Forte to Java. There has been no work done on it this month because the person assigned by the NITC was pulled off of this work due to other priorities he has been given. We have not received an alternate date on receiving their recommendation, which was originally scheduled for June.

Agenda Item 6 - Annual Education Services Update: Ms. Fox stated that her area includes two training specialists and a graphic artist. The area is responsible for informing and educating the plan members, employers, and staff about changes and improvements in the plans, changes in processes in the office, and changes in trends and attitudes regarding retirement. They publish numerous educational materials, including employer manuals, newsletters, and plan booklets. They are responsible for conducting seminars, workshops, in-service training and special meetings. Mr. Winkelman is also responsible for maintaining our website.

Ms. Fox provided the Board members with a written report that she briefly reviewed. Copies of the report can be obtained from NPERS. She stated the report covers direct expenses related to the work her area does, but does not cover indirect and fixed costs incurred by the agency.

Seminars are conducted for the "over 50" members and personal planning seminars are conducted for the "under 50" State and County members. The staff conducts meetings and seminars for State and County members in the fall and for School members in the spring, with Judges and Patrol plan members welcome to attend those sessions. Special meetings are done by invitation. They have also implemented the "Retirement 101" sessions for State and County employees. They have done some meeting for the regional centers for State employees that were being laid off. All together, there were 30 special meetings (16 of those were "Retirement 101"), 58 seminars, 13 employer meetings for a total of 101 meetings and they saw face to face 3,666.

One area they are working on now is getting some of the presentations on the NPERS website. They have filmed John Morey and that is now available on the website. They have also filmed a "Retirement 101" session and placed it on the website. Next they plan to develop a short session for the School members.

Ms. Fox announced that Tuesday night at 9:00 p.m., PBS Frontline will air the program that Hedrick Smith Productions was working on in February of this year when they taped a NPERS seminar and interviewed Ms. Sullivan, Mr. Winkelman, Mr. Morey, and plan members.

Ms. Sullivan noted that the fees that members are charged for seminars covers the cost of their meal. When the Legislature created this educational component, the commitment was made that plan assets would be used to educate the plan members.

Agenda Item 7 - Hartford DCP Annual Report: Mr. Robinson gave his report on the DCP Plan and Investment Review for 2005. Copies of the reports can be obtained from NPERS.

Ms. Kontor joined the meeting at 9:15 a.m.

Mr. Peters asked if we could receive investment information net of fees, which Mr. Robinson stated he would provide.

Mr. Rea moved to accept the Educational Services Annual Report from Mr. Fox. Mr. Kahla seconded the motion. Members voted as follows: For: D. Kahla, M. Shepard, G. Elwell, G. Camerer, R. Wassinger, C. Peters, D. Blank, and R. Rea. Against: None. Motion carried.

Mr. Rea moved to accept the Hartford Annual Report. Sgt. Elwell seconded the motion. Members voted as follows: For: M. Shepard, G. Elwell, G. Camerer, R. Wassinger, C. Peters, D. Blank, R. Rea, and D. Kahla. Against: None. Motion carried.

Agenda Item 8 - Award of 2006-2007 DCP Annuity Contract: Ms. Sullivan stated that the DCP Annuity Contract was rebid last year. At that time we had several companies decline to bid due to the small number of individuals in the DCP plan selecting an annuity. There were only six members who took an annuity during the 2005-06 fiscal year. Ms. Sullivan asked United of Omaha if they would be willing to continue the contract with these small numbers. The current contract expires June 30, 2006. Today the Board members received a copy of the Endorsement No. 2, which included information on a sample benefit. Ms. Sullivan recommended that the Board approve Endorsement #2 so we will have a contract for the coming year, during which time we will look at other possible options, including the possibility that we will not need to renew the contract every year.

Ms. Kontor noted that ideally what we would like to see happen is more participants joining the plan because it is an excellent plan, and then we may have more individuals selecting an annuity in the future.

Judge Camerer moved to award the annuity contract provision as recommended by Ms. Sullivan. Mr. Shepard seconded the motion. Members voted as follows: For: G. Elwell, G. Camerer, R. Wassinger, C. Peters, D. Blank, R. Rea, D. Kahla, and M. Shepard. Against: None. Motion carried.

The Board took a break at 10:00 a.m. and reconvened at 10:15 a.m.

Agenda Item 9 - State/County Cash Balance 2005 Dividend Determination: Ms. Sullivan reminded the Board that last month the Board discussed the State and County Cash Balance annual valuation. This morning the Board members received copies of the final report. At the last meeting the dividend was discussed and a motion was made to consider a dividend pending confirmation of final numbers by the actuary. Since awarding the dividend was not placed on the April Meeting Agenda, it was placed on the Agenda for this month.

Mr. Blank stated the issue is whether or not the dividend should be granted now or wait until the pension funds are audited. Since the Board last month decided to grant the dividend up to

an amount leaving only the required 10% cushion, the recommendation is to wait until the financial statements for the State and County Cash Balance funds are audited so we do not unintentionally violate the 10% cushion/reserve.

Judge Camerer suggested that the Board consider a larger percentage for the cushion. Mr. Blank noted that it is the only plan that has any reserve or cushion. Ms. Sullivan noted that Policy No. 10 outlines the process that is to be used for the dividend.

If the matter is tabled until we have the audited financial statements, the actuary would then use the audited financial statements to make the determination on what the dividend amount would be.

Ms. Sullivan stated she has received some comments that there is a concern about creating an expectation of plan members if we exceed the 8% target and in future years it could cause some backlash. Sgt. Elwell stated the backlash could be worse if we did not provide the dividend and the members may need to be educated that the markets go up and down, the contribution rate may change, and the dividend amount will change.

Mr. Rea moved that the Board table the decision of granting the dividend for the State and County Cash Balance Plans until the audit reports are finished. Mr. Shepard seconded the motion for discussion. Members voted as follows: For: R. Rea and M. Shepard. Against: G. Camerer, R. Wassinger, C. Peters, D. Blank, D. Kahla and G. Elwell. Motion failed.

Judge Camerer moved to grant State Cash Balance members a dividend based on the final audit figures that will be presented to the actuary in all amounts available yet maintaining the 10% reserve that was the subject of the discussion. Sgt. Elwell seconded the motion. During discussion Mr. Rea stated his motion was to allow the Board to review the matter prior to granting the dividend. Ms. Sullivan stated the actuary does have some comments and is requesting more clarification. We should continue discussion with the actuary awaiting the audited financial statements.

Members voted on the motion on the floor as follows: For: D. Blank, D. Kahla, M. Shepard, G. Elwell, and G. Camerer. Against: R. Wassinger, C. Peters and R. Rea. Motion carried.

Judge Camerer moved to grant County Cash Balance members a dividend based on the final audit figures that will be presented to the actuary in all amounts available yet maintaining the 10% reserve that was the subject of the discussion. Sgt. Elwell seconded the motion. Members voted as follows: For: C. Peters, D. Blank, D. Kahla, M. Shepard, G. Elwell, and G. Camerer. Against: R. Rea and R. Wassinger. Motion carried.

Agenda Item 10 - Finalization of new Age-Based Investment Fund for State/County:

Ms. Sullivan, staff, Ms. Jochim, and Ms. Kontor discussed the Age-Based Fund. It is their recommendation that we use the three existing pre-mix funds for this new fund as follows: the Aggressive Pre-mix Fund be used for members electing the Age-Based Fund for up to 39 years of age; the Moderate Pre-mix Fund for ages 40 through 59; and the Conservative Pre-mix Fund for those 60 years of age and older.

Mr. Rea moved that the recommendation for the Age-Based Investment Fund be adopted. Mr. Blank seconded the motion. The three pre-mixes already exist and are also available to members to select outside of the Age-Based Fund. Members voted on the motion as follows: For: D. Blank, R. Rea, D. Kahla, M. Shepard, G. Elwell, G. Camerer, R. Wassinger, and C. Peters. Against: None. Motion carried.

Agenda Item 11 - Education Committee Recommendations for Annual Board Retreat:

Mr. Rea had submitted a list of potential topics for the Retreat. He stated he would also like to add the long term consequences of granting dividends up to the 10% reserve and what is our authority, either statutorily or otherwise, to grant dividends up to the 10% reserve or to withhold from that 10% maximum. He also suggested that the Investment Council present information on how they invest money for the different plans.

Sgt. Elwell suggested that we not have a Sunday evening session. Judge Camerer mentioned the reimbursement issue. He stated he does not feel the Board should be reimbursed outside of the normal protocol.

Judge Camerer moved that the Board's reimbursement policy be brought into conformity with State regulations. Mr. Shepard seconded the motion. Mr. Blank mentioned that the Retreat could be held in Kearney. Mr. Rea suggested checking into Mahoney State Park and Kearney and get back to the Retreat Committee. Members voted as follows: For: D. Kahla, M. Shepard, G. Elwell, G. Camerer, R. Wassinger, and D. Blank. Against: R. Rea and C. Peters. Motion carried.

Judge Camerer moved that Ms. Sullivan, together with the Retreat Committee, select and plan the Retreat after looking into a couple of alternative sites to determine the date and location of the Retreat. Mr. Blank seconded the motion. For: D. Kahla, M. Shepard, G. Elwell, G. Camerer, R. Wassinger, C. Peters, D. Blank, and R. Rea. Against: None. Motion carried.

Agenda Item 12 - Investment Officer's Update: Ms. Kontor apologized for being late due to family illness. She reported the Council met on April 20th. They decided nine to twelve months ago to make an allocation to private real estate, but because of the interest in the asset class, they were only able to get into the queue. They got in the queue with Prudential Real Estate and UBS Real Estate. Money has been reallocated from REITs to the private real estate and they have funded half of the private core real estate target.

The Council has a risk budgeting policy and reviews the risk budgeting allocations annually. They were in compliance except for the International funds, which had been changed significantly in 2005, so they decided to not change that allocation. They added a risk budget for global equity.

Ariel Capital Management had been asked to attend the meeting and talk to the Council about performance. The Council is watching Ariel closely.

Ms. Kontor stated that the standing audit committee gave its first report to the Investment Council.

The Investment Council meets again next Tuesday, May 23rd.

The Defined Benefit plans rate of return for the first quarter of 2006 was 5.2% and the rate of return for the past twelve months was 14.3%. The Cash Balance rate of return for the first quarter was 5.1% and for the past twelve months the rate of return is 13.5%.

Mr. Blank moved to accept the Investment Officer's report. Mr. Kahla seconded the motion. For: M. Shepard, G. Elwell, G. Camerer, R. Wassinger, C. Peters, D. Blank, R. Rea, and D. Kahla. Against: None. Motion carried.

Agenda Item 13 - Director's Report: Ms. Sullivan reported the makeup dividend ran last Friday night, May 12. We will be doing a mail merge and creating a letter for the recipients stating the amount of the dividend received. There were approximately 2,000 individuals that were impacted.

She has had several conversations with the actuary during the month and will stay in contact with him as we prepare for the retreat.

A memo was sent out to state agencies regarding recent legislation (flat 4.8% contribution rate and immediate participation). Ms. Fox will be meeting with the County Clerks in June to update them during the Clerks' summer meeting.

We have been holding regular meetings with Union Bank. Union bank suggested running parallel with Ameritas for the month of June so they can reconcile balances quicker and so we have worked out any kinks before going live. There will be a black-out period when only contributions will be processed while we are transitioning the records to Union Bank.

The State, County and Deferred Comp audit is currently in progress.

Ms. Sullivan presented at the Probation Administration Annual Meeting in Hastings. She was able to visit with Julia Moeller while she was in Hastings.

There was another follow-up this month on the open meetings law at the Independent Agency Directors Meeting. A key provision is that the agenda be clear and when the Board goes into executive session that the motion be clear what will be discussed.

We are current on retirements processing. Estimates for those that will not be retiring for several years will be second priority during the busy retirement period.

Judge Camerer moved to accept the Director's report. Mr. Kahla seconded the motion. Members voted as follows: For: G. Elwell, G. Camerer, R. Wassinger, C. Peters, D. Blank, R. Rea, D. Kahla, and M. Shepard. Against: None. Motion carried.

Agenda Item 14 - Public Comments or Correspondence from Citizens: There were no public comments or correspondence from citizens with business not scheduled on the agenda.

Agenda Item 15 - Chairperson's Comments: Mr. Peters had no comments.

Agenda Item 16 - Future Meetings/Agendas: The next meeting will be held on Monday, June 19, 2006, in the TierOne Community Meeting Room at 1221 N Street. Tentative items that will be included on the Agenda are the Covansys Annual Report and the Director's evaluation, which is usually completed in June. There are no rules and regulations or policy updates at this time, although Mr. Schaefer has been working on updating the agency rules and regs.

Agenda Items 17 and 18 - Executive Session: At 11:47 a.m., Judge Camerer moved that the Board exit Regular Session and convene in Executive Session to discuss disability applications in Retirement Nos. 410459, 148759, 072593, and 401005, the Legal Update of Nesbitt vs. NPERS, Lancaster District Court Case, and to review the draft Performance Audit Report. Motion was seconded by Mr. Wassinger seconded the motion. Members voted as follows: For: G. Camerer, R. Wassinger, C. Peters, D. Blank, R. Rea, D. Kahla, M. Shepard, and G. Elwell. Against: None. Motion carried.

At 2:00 p.m., Mr. Kahla moved that the Board exit Executive Session and reconvene in Regular Session. Motion was seconded by Mr. Rea. Members voted as follows: For: R. Wassinger, C. Peters, D. Blank, R. Rea, D. Kahla, M. Shepard, G. Elwell, and G. Camerer. Against: None. Motion carried.

Mr. Kahla moved for approval of the disability applications of Retirement Nos. 410459, 148759, 072593, and 401005. Mr. Rea seconded the motion. Members voted as follows: For: C. Peters, D. Blank, R. Rea, D. Kahla, M. Shepard, G. Elwell, G. Camerer, and R. Wassinger. Against: None. Motion carried.

Mr. Rea moved that the PERB Legislative and Audit Committee be assigned the task of preparing a response to the Performance Audit Report. Mr. Shepard seconded the motion. Members voted as follows: For: D. Blank, R. Rea, D. Kahla, M. Shepard, G. Elwell, G. Camerer, R. Wassinger, and C. Peters. Against: None. Motion carried.

Adjournment: Mr. Blank moved that the meeting adjourn. Motion was seconded by Mr. Rea. Members voted as follows: For: R. Rea, D. Kahla, M. Shepard, G. Elwell, G. Camerer, R. Wassinger, C. Peters, and D. Blank. Against: None. Motion carried.

The meeting adjourned at 2:08 p.m.

Anna J. Sullivan
Director